

THE AGN EUROPEAN REGION -- 2007 Parent Companies Survey--

AGN International is an association of separate and independent accounting and consulting firms, represented in 83 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, parent companies, corporate, value added (VAT), salary and social security and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons from year to year and from country to country and give an insight into trends.

Introduction: Parent companies are used to hold participations in group companies to centralise control and to collect dividends and make capital gains from the sale of subsidiaries in the most tax efficient way.

The objective of the survey of parent company jurisdictions is to compare and contrast the conditions for the exemption of dividends and capital gains and to try to identify the most useful and flexible jurisdiction to place the parent company. The tax calculations are based on a standard profit and loss account and balance sheet with subsidiaries in France, Germany, USA and Switzerland.

Countries Covered: The 2007 survey covers 20 countries (18 members of the EU as well as Russia and Switzerland).

Results of the 2007 Survey:

Net cash receivable by non-resident parent company: Cyprus pays the highest net dividend to a non-treaty country domiciled shareholder which amounts to 96,06% of the profit made by the parent company, followed by Malta (94,51%) and Ireland (94,14%). Bottom of the list comes Switzerland (56,16%), followed by the Czech Republic (60,91%) and Russia (62,42%). It is also worth noting that in the case of Ireland the percentage increased between 2006 and 2007 from 78,66% to 94,14% and in the case of Malta it decreased from 100,24% to 94,51%.

Dividend income (re: foreign subsidiaries): Most parent company jurisdictions apply a full dividend income exemption system for dividend income from foreign subsidiaries. However, in some jurisdictions like Ireland, Poland and the UK, dividend income is fully taxed and a tax credit applies. Only 84% of the dividend income is exempt in Romania and 95% in Belgium, Germany, France and Italy.

Dividend withholding tax credits (re: foreign subsidiaries): In case of distributing the dividend income from a foreign subsidiary (for example USA, French, German and Swiss) to a parent company jurisdiction, a dividend withholding tax credit is granted in certain cases. A tax credit for the withholding tax on dividend income from a USA participation is granted in Luxembourg, the UK, Italy and Switzerland. A tax credit for the withholding tax on dividend income from a Swiss participation is granted in Italy and the UK.

Capital gain (re: foreign subsidiaries): Capital gains resulting from the sale of shares in foreign subsidiaries are fully tax exempt in most parent company jurisdictions. However, in the

Czech Republic, Greece, Poland and Russia capital gains are fully taxed. In Germany only 95% of the capital gains are exempt and 84% are exempt in Italy and Romania.

Investment costs write down (re: subsidiaries): Investments can be fully written down only in the jurisdictions of Austria (in a period of 7 years), Ireland, Luxembourg, the Netherlands, Portugal, Romania, Spain and Switzerland.

Interest deduction: Interest paid on a loan taken by the parent company to purchase a foreign subsidiary can be fully deducted in most jurisdictions. It is not deductible in Cyprus and Greece.

Interest withholding tax: Nine countries participating in the survey (Austria, Cyprus, France, Germany, Luxembourg, Malta, the Netherlands, Sweden and Switzerland) do not impose any withholding tax on interest paid. The rate in the rest varies between 10% and 20%, Greece, Ireland, Poland, Russia and the UK being on the higher end.

Corporate income tax payable: The corporate income tax due on taxable profit differs from 10% in Cyprus and 12,5% in Ireland to 33,99% in Belgium, 33,33% in France and 33% in Italy. Malta applies a unique system where the tax rate is 35%, but when dividends are distributed from passive income, tax is refunded resulting in an effective tax rate of 10% and when dividends are distributed from other income, tax is refunded resulting in an effective tax rate of 5%.

Dividend withholding tax (re: non-resident parent company): In most of the jurisdictions a withholding tax on dividend applies in case of distributing a dividend to the non-resident parent. The rate varies from 15% to 35% except in the case of Cyprus, Greece, Ireland, Malta and the UK where no withholding tax is imposed.

CONCLUSION:

Most parent company jurisdictions apply a full dividend income and capital gains exemption system. In the parent company jurisdictions where the exemption system does not apply (like Ireland, Poland and the UK) a tax credit is granted. From a tax point of view and particularly with regard to a low tax burden and a short-term realisation of dividends, a non-resident taxpayer will gain most benefit from a parent company in Cyprus, Malta or Ireland.

It may be necessary to establish a combination of parent companies in different jurisdictions to achieve all tax saving objectives.

Before taking or refraining from action in relation to the above, specific professional advice should be taken.

Full details of the AGN surveys, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org Our Organisation Latest-Tax Surveys